

VZCZCXRO8655
PP RUEHRG
DE RUEHSO #0449/01 1181830
ZNR UUUUU ZZH
P 281830Z APR 06
FM AMCONSUL SAO PAULO
TO RUEHC/SECSTATE WASHDC PRIORITY 4932
INFO RUEHBR/AMEMBASSY BRASILIA 6073
RUEHBU/AMEMBASSY BUENOS AIRES 2183
RUEHAC/AMEMBASSY ASUNCION 2525
RUEHCV/AMEMBASSY CARACAS 0259
RUEHPE/AMEMBASSY LIMA 0942
RUEHMN/AMEMBASSY MONTEVIDEO 1932
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RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/USDOC WASHDC 2389
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SUBJECT: FEDERAL DEPUTY GREEHALGH SHARES VIEWS ON ELECTION CAMPAIGN,
LULA'S PREDICAMENT, CAMPAIGN FINANCE COMPLEXITIES, CELSO DANIEL
CASE, AND MORE

REF: (A) BRASILIA 727 AND PREVIOUS;

(B) SAO PAULO 316; (C) 05 BRASILIA 387;
(D) 04 SAO PAULO 379; (E) 02 SAO PAULO xxx
(F) BRASILIA 813; (G) SAO PAULO 332

SENSITIVE BUT UNCLASSIFIED - PLEASE PROTECT ACCORDINGLY.

SUMMARY

1. (SBU) In a ninety-minute breakfast meeting with Consulate representatives, Federal Deputy Luiz Eduardo Greenhalgh (PT-SP) offered his insights on a number of current political issues. He said President Lula faces a tough fight for re-election and is concerned about his prospects in populous Sao Paulo state, which Greenhalgh characterized as "enemy territory." For this reason, Lula is promoting the Workers Party (Party dos Trabalhadores - PT) gubernatorial candidacy of Senator Aloisio Mercadante over that of former Mayor Marta Suplicy in the hope that, even if he doesn't win, the popular Mercadante can provide Lula with reverse coattails. Greenhalgh expressed concern over Lula's lack of a government program and especially his increasing isolation as more of his friends and party colleagues leave government due to either scandal or re-organization or both. Lula has become dependent on several key advisors from Rio Grande do Sul state.

2. (SBU) The one piece of good news for Lula is that the opposition candidate, Geraldo Alckmin, has so far not resonated with voters, giving Lula some breathing room. The major third party, the PMDB, remains hopelessly divided over whether or not to run a presidential

candidate, and, if so, who. Party leadership is doing everything possible to avoid a run by populist Rio de Janeiro former Governor Anthony Garotinho. If elected to a second term, Greenhalgh predicted, Lula would continue his orthodox macro-economic policies but would increase the emphasis on education and devote more resources to it.

13. (SBU) In assessing his party's prospects, Greenhalgh estimated that the PT will probably win about 60 (out of a possible 513) seats in the federal Chamber of Deputies, down from its current 89. The PT continues to struggle to recover from the ongoing political scandal (ref A). END SUMMARY.

WHITHER LULA AND THE PT?

14. (U) Federal Deputy Luiz Eduardo Greenhalgh, a founder and long-standing prominent member of President Lula's PT from Sao Paulo, invited Deputy Principal Officer (DPO), Poloff, and Political Assistant to breakfast at his apartment near downtown Sao Paulo. Also present was Sister (Congregation of the Holy Cross) Michael Mary Nolan, an AMCIT human rights advocate and partner in Greenhalgh's law firm who has lived and worked in Brazil since 1968, and the Deputy's secretary and political assistant, Miraci Astun. Congressman Greenhalgh, in a relaxed and talkative mood, began by sharing "war stories" of his days as a human rights advocate under the military dictatorship.

15. (SBU) When talk turned to the current political situation, Greenhalgh, an influential "petista" (PT member) who narrowly missed being elected in February 2005 to the Presidency of the federal Chamber of Deputies (see ref C), and serves as his party's deputy

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leader in the Chamber, provided a sober assessment of the PT's prospects. The PT, he averred, will probably end up with approximately 60 seats (out of 513) in the Chamber of Deputies, down from its current 89. The scandal has obviously alienated many voters. Lula's re-election is by no means assured. He is fighting hard now because he's under attack from the opposition, and he needs to demonstrate his legitimacy as a political leader and statesman and protect his legacy. Lula loves to campaign, Greenhalgh observed, and relishes the opportunity to "make them swallow him," a reference to the elites who despise Lula (and the feeling is mutual). But neither Lula nor his government has any program or any new ideas, Greenhalgh confided; since the scandal broke in May 2005, the government has been paralyzed, as, he acknowledged, the Congress has also, its time taken up entirely by the work of the various investigative committees (CPIs).

16. (SBU) What's worse, Greenhalgh continued, Lula is increasingly isolated. He is suffering from the "lonely at the top" syndrome. Most of his old party friends are gone, victims of the scandals or of one reshuffling or another. Former Chief of Staff Jose Dirceu was never a close personal friend, but he was an effective political ally, confidant, and enforcer. Former Finance Minister Antonio Palocci, on the other hand, was a good friend from his days as Mayor of Ribeirao Preto (interior of Sao Paulo state), and both his personal counsel and his political and financial acumen are sorely missed. In the entire Executive Branch, only two close friends of Lula remain on the job: Luiz Dulci, Secretary General of the Presidency, and Gilberto Carvalho, Lula's personal secretary. Lula is now the captive of the "Republic of Rio Grande do Sul," led by current Chief of Staff Dilma Rousseff and new political coordinator (and former Education Minister) Tarso Genro. If elected to a second term, Greenhalgh ventured, Lula would probably continue with the same economic policies he has pursued to date, but would try to make education the focus of his government's efforts to redress Brazil's social and economic inequality.

CELSO DANIEL'S MURDER WAS A COMMON CRIME

17. (SBU) Poloff observed that even Gilberto Carvalho's continued

government service may be in question, as major national media continue to link him to an alleged cover-up of the January 2002 kidnapping and murder of Santo Andre Mayor (and Lula presidential campaign coordinator) Celso Daniel (refs D-E). Carvalho has had to testify before the parliamentary committee investigating irregularities in bingo operations and other forms of municipal corruption ("the Binges CPI"). Both Greenhalgh and Nolan were quick to insist that these allegations were false, that Carvalho was a serious, devout person innocent of wrongdoing, and that the media's coverage of the Daniel murder was wide of the mark. Greenhalgh, who in his role as Federal Deputy was intimately involved in the investigation, offered his ten-minute account of what really happened. It was a common crime. Yes, there were credible allegations of municipal corruption in Santo Andre (one of the "ABC" industrial suburbs south of Sao Paulo, where the PT is strong) involving Daniel's friend and former bodyguard, Sergio Gomes da Silva, aka Sombra, and yes, Daniel was dining with "Sombra" right before he was kidnapped, so it was inevitable that media and others would connect the murder with political corruption, but there was no factual basis for so doing. In Greenhalgh's version, the criminal gang that picked Daniel up off the street panicked when they realized they had a VIP on their hands; some wanted to let him go, but others, fearing he could reveal the identity of his captors,

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insisted he be eliminated, and so he was. Greenhalgh claimed to be one of the first to see the body, and, based on his long experience in human rights cases, could swear that Daniel had not/not been tortured, despite allegations to the contrary. He had met many times with members of the Daniel family, including his brothers Juan Francisco and Bruno, who he said at first appeared to accept the police's "common crime" theory but who now insist that the murder and cover-up were carried out by elements of the PT at the instigation of Jose Dirceu.

THE OPPOSITION...

18. (SBU) Returning to the current political scene, Greenhalgh noted that Lula had at least one piece of good luck: the campaign of his opponent, Brazilian Social Democracy Party (PSDB) candidate and former Sao Paulo Governor Geraldo Alckmin, had not yet taken off, and Lula retained a considerable lead in the polls. In fact, Greenhalgh opined, if Alckmin doesn't show some tangible improvement soon, the PSDB leadership may remove him as their candidate and designate former Sao Paulo Mayor (and current gubernatorial candidate) Jose Serra their nominee. There is time enough: party conventions are held in June, and the candidate doesn't have to register until late June. Unlike others we have spoken to, Greenhalgh believes Serra would be tougher for Lula to defeat than Alckmin. (Comment: He may also hope the PSDB removes Serra from the gubernatorial campaign, making it more plausible for a PT candidate to win. End comment.)

...AND THE INFERNAL THIRD PARTY

19. (SBU) Then, of course, there remained the question of what the Brazilian Democratic Movement Party (PMDB) was going to do. The PMDB was "our original sin," lamented Greenhalgh, referring to the fact that the PMDB had evolved out of the Brazilian Democratic Movement (MDB), the legal opposition to the 1964-85 dictatorship, and almost all working politicians over the age of about 40 (except maybe some die-hard Communists and some supporters of the military regime) had started out in either the MDB and PMDB. The party remains hopelessly divided over whether or not to run its own presidential candidate, and, if so, who. The party leadership remains united in its profound wish that former Rio de Janeiro candidate Anthony Garotinho not be their standard-bearer. (Comment: One has to wonder why the PMDB accepted him into its ranks after he defected from the Socialist Party. End Comment.) Recently, Jose Dirceu had met with PMDB former (1992-94) President Itamar Franco, reportedly at Lula's behest, to offer him the Vice-Presidential candidacy in a PT-PMDB alliance. But this was a Dirceu "rogue

operation," asserted Greenhalgh, which in the end hadn't worked, since Franco had declared his presidential candidacy instead. The purpose of a Franco run for President was to block Garotinho, a worthy goal in Greenhalgh's view, but the danger was that it might be too successful; an Itamar Franco presidential candidacy that showed any sign of viability would be a nightmare for the entire nation. In fact, Franco is more interested in running for the Senate from his home state of Minas Gerais than for the Presidency, but if his Presidential candidacy should take off, as it might, the country will be in trouble.

SAO PAULO STATE GOVERNOR'S RACE HAS NATIONAL IMPLICATIONS

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¶10. (SBU) Poloff inquired into the PT's handling of the campaign for Governor of Sao Paulo. The PT has scheduled a primary for May 7. Two candidates - Senator Aloisio Mercadante, the government's leader in the Senate, and former Sao Paulo Mayor Marta Suplicy - are running. There once was a third candidate, Federal Deputy Joao Paulo Cunha, a former President of the Chamber of Deputies, but he withdrew some time back due to his involvement with the "mensalao" (political bribery) scandal. The Chamber recently voted (ref A) not to expel him and deprive him of his political rights for eight years, despite the evidence against him, but federal prosecutors have built a strong criminal case against him. Nevertheless, he remains a power in the party in this state. According to Greenhalgh, President Lula was initially inclined to let Marta Suplicy and Mercadante work out their differences. Suplicy is very strong in the city of Sao Paulo; Mercadante is strong in the interior of the state. The periphery of greater Sao Paulo, the industrial suburban belt, is up for grabs. Then Lula recalled what had happened in the February 2005 election for President of the Chamber. Greenhalgh should have been the easy winner, since his party had the largest bloc in the Chamber, and tradition favored letting them have their choice. But Virgilio Guimaraes, another "petista," had entered the race, splitting the vote and paving the way to victory for Severino Cavalcanti of the Progressivist Party (PP). A member of the Chamber's so-called "lower clergy," ineffective and not well respected, Cavalcanti had presided over a period of Congressional lethargy and was then forced to resign in September 2005 over allegations that he extorted bribes from a restaurateur who had a contract with the Chamber.

¶11. (SBU) To avoid another fiasco involving a PT split vote, Lula interceded. Aware that Marta Suplicy has high negative numbers and would be a divisive figure as a candidate - she would be much better as Vice-Governor, or as a Federal Deputy, Greenhalgh said - he put the word out that he favored Mercadante. At least one peripheral community, Osasco, west of the city, where Cunha holds sway, publicly switched its support from Suplicy to Mercadante. Guarulhos, another city on the outskirts, remains a battleground, as do Santo Andre and Diadema. Lula understands, Greenhalgh stressed, that no PT candidate is likely to win as long as Jose Serra is the PSDB candidate for Governor, but the popular, respected Mercadante can bring in a lot of votes for Lula in the Presidential election, votes badly needed in "enemy territory," as Greenhalgh characterized Sao Paulo state, where the PSDB has a strong base. The state, which has 23 percent of Brazil's population, is absolutely critical.

¶12. (SBU) The electoral campaign at state level also remains hostage to the whims of PMDB state chairman (and former Governor) Orestes Quercia. Often touted as a gubernatorial candidate, one who was leading in the polls until Serra entered the race, Quercia would actually prefer to be a Senator. He wants to make an alliance with the PT, but the negotiations are not going well. He may end up in an alliance with the Communist Party of Brazil (PCdoB) in which the President of the Chamber of Deputies, Aldo Rebelo (PCdoB-SP), would run for Governor. But the incumbent Senator, Eduardo Suplicy (PT), Marta Suplicy's ex-husband, remains a formidable opponent.

¶13. (U) Greenhalgh said he expected that the PT's "National Encounter," which is taking place in Sao Paulo April 28-30, would be, as always, somewhat contentious as militants argues over the

platform, but he believes that the party will nevertheless remain united, and even the disaffected leftist will strongly support Lula's re-election. They remain disappointed with his orthodox

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macroeconomic policy, but they recognize that a Lula second term offer the best hope for combating inequality and advancing social justice. (NOTE: Post was invited to send representatives to observe the Encounter, and had planned to do so, but was advised April 26 by the PT Secretariat for International Relations (SRI) that the party had decided to hold a closed, "Members only" encounter, and that there was no room for observers. END NOTE.)

"CAIXA DOIS" - ETHICAL AND UNETHICAL

¶14. (SBU) DPO inquired into the mechanics of campaign financing. Greenhalgh replied that in his last race for Deputy, he had formally declared expenditures of 600,000 reais (about USD 250,000). This had come from individual contributions and from businesses. But many businesses were reluctant to appear on contributor lists, so they make their donations in kind, in the form of various services (e.g., transportation, printing flyers, etc.) to the campaign. Thus, Greenhalgh estimated that his actual campaign expenditures were closer to 720,000 reais. When he declared the 600,000, he said, people commented on how high it was, but that only lasted a day or two. By making such a plausible declaration, so close to the truth, he had effectively immunized himself against accusations of campaign finance irregularities. In short, it was true, as Lula and other defenders of the PT had asserted during the scandal, that "everyone practices Caixa Dois," the collection and use of unreported, off-the-books campaign funds. But there are ethical and unethical ways of doing it, Greenhalgh insisted, fiction and non-fiction. Some Federal Deputies from Sao Paulo report, with a straight face, total campaign expenditures of 150,000 reais (USD 70,000), a sum of money that "could not get you elected city councilman in Itagui," as Greenhalgh put it, when they no doubt raised and spent three times that amount.

MST

¶15. (SBU) DPO inquired into the PT position on recent activity by the Landless Movement (Movimento dos Trabalhadores Sem Terra - MST), which has been engaged recently in increasingly confrontational land invasions and property destruction (refs F-G). Greenhalgh noted that his law firm represents MST (as well as various other social movements and leftist publications), including leaders Joao Pedro Stedile and Jose Rainha, and he has a long relationship with the group and a policy of never criticizing them publicly. However, he had departed from that policy after MST's March 8 assault on the Aracruz cellulose plant in Rio Grande do Sul, which resulted in a reported USD 400,000 worth of damage. He said he had issued a statement to the effect that such disrespect for the rule of law was unacceptable, and that MST needed to reassess its tactics. Greenhalgh's view is that although MST generally operates under the influence of the PT, in some places and circumstances Senator Heloisa Helena's breakaway Socialism and Liberty Party (PSOL) controls the movement. He suggested that PSOL rather than the PT was to blame for MST's recent confrontational and violent actions.

COMMENT

¶16. (SBU) Greenhalgh is a serious politician with strong human rights credentials, but he is not universally admired. He has

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himself been accused of corruption while serving as Vice-Mayor of Sao Paulo in the administration of PT Mayor Luiza Erundina (1989-92). He has also been widely criticized by both the PSDB and

some Sao Paulo state investigators for leading what some have called a white-wash effort by the PT in the Celso Daniel murder case. That said, his insights into the problems of his party, and Lula's problems, are especially penetrating and relevant as the campaign draws nearer. End Comment.

¶17. (U) This cable has been coordinated/cleared with Embassy Brasilia.

MCMULLEN